

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
CLAY COUNTY MEDICAL CENTER
DECEMBER 31, 2015 AND 2014

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Certified Public Accountants
and Management Consultants

Heather R. Eichen, CPA
Brian J. Florea, CPA
John R. Helms, CPA
Eric L. Otting, CPA

Darrell D. Loyd, CPA
Jere Noe, CPA
John E. Wendling, CPA
Barry W. Boyles, CPA
Adam C. Crouch, CPA
Ashley R. Davis, CPA
Brian W. Nyp, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Clay County Medical Center

We have audited the accompanying financial statements of the business-type activity of Clay County Medical Center (Medical Center), a component unit of Clay County, Kansas, as of and for the years ended December 31, 2015 and 2014, which collectively comprise the Medical Center's financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The 2015 and 2014 financial statements referred to above do not include financial data of the Clay County Hospital Foundation (Foundation), a component unit of the Medical Center based on the nature and significance of the relationship between the Medical Center and the Foundation. Although the Medical Center does not have ownership of the assets of the Foundation, the financial data of the Foundation should be included in order to conform with accounting principles generally accepted in the United States of America as provided for in Governmental Accounting Standards Board Statement No. 39, "Determining Whether Certain Organizations are Component Units." If the omitted component unit had been included for the years ended December 31, 2015 and 2014, the component unit's assets and net assets would be approximately \$1,790,000 and \$1,568,000, respectively, and the increase in net assets would be approximately \$222,000 and \$585,000, respectively.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of Clay County Medical Center as of December 31, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

The Medical Center has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Clay County Medical Center's financial statements as a whole. The supplementary information presented on pages 22 through 27 is for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole, except that no opinion is expressed as to the adequacy of insurance coverage.

The statistical data shown on page 28 is presented solely as supplementary information. This data has been summarized from Medical Center records and was not subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on such data.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
May 24, 2016

FINANCIAL STATEMENTS

CLAY COUNTY MEDICAL CENTER
STATEMENTS OF NET POSITION
December 31,

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and invested cash	\$ 2,491,781	\$ 1,617,349
Patient accounts receivable, net of allowance for doubtful accounts of \$2,119,039 in 2015 and \$1,713,320 in 2014 (Note A5)	2,763,406	3,391,430
Other receivables	70,940	48,562
Estimated settlements due from third- party payors (Note B)	160,879	
Assets whose use is limited - required for current liabilities (Note D)	272,779	79,713
Inventories (Note A6)	195,422	214,897
Prepaid expenses	<u>213,982</u>	<u>158,621</u>
Total current assets	<u>6,169,189</u>	<u>5,510,572</u>
ASSETS WHOSE USE IS LIMITED		
By Board of Trustees (Note C)		
For capital acquisitions	983,232	949,438
By agreement (Note D)	<u>585,304</u>	<u>329,713</u>
	1,568,536	1,279,151
Less assets whose use is limited and that are required for current liabilities	<u>272,779</u>	<u>79,713</u>
Noncurrent assets whose use is limited	<u>1,295,757</u>	<u>1,199,438</u>
CAPITAL ASSETS - NET (Notes A7, E, F, H, and L)	<u>5,004,974</u>	<u>5,591,708</u>
OTHER ASSETS		
Other investments (Notes A8 and G)	<u>352,645</u>	<u>544,639</u>
Total assets	<u>\$ 12,822,565</u>	<u>\$ 12,846,357</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES		
Current portion of capital lease obligations (Note E)	\$ 108,189	\$ -
Current installments of long-term debt (Note H)	337,224	322,224
Accounts payable and other accrued liabilities	782,562	759,005
Salaries and wages payable	111,249	69,992
Accrued compensated absences	457,154	543,617
Payroll taxes payable		83,113
Estimated settlements due to third-party payors (Note B)	838,324	604,908
Accrued interest payable	<u>17,779</u>	<u>23,304</u>
Total current liabilities	<u>2,652,481</u>	<u>2,406,163</u>
CAPITAL LEASE OBLIGATIONS, excluding current portion (Note E)	<u>36,487</u>	<u>-</u>
LONG-TERM DEBT, excluding current installments (Note H)	<u>1,242,764</u>	<u>1,579,988</u>
Total liabilities	<u>3,931,732</u>	<u>3,986,151</u>
NET POSITION (Note A9)		
Invested in capital assets - net of related debt	3,280,310	3,689,496
Restricted		
For debt service (Note D)	585,304	329,713
Unrestricted	<u>5,025,219</u>	<u>4,840,997</u>
Total net position	<u>8,890,833</u>	<u>8,860,206</u>
Total liabilities and net position	<u>\$ 12,822,565</u>	<u>\$ 12,846,357</u>

CLAY COUNTY MEDICAL CENTER
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN
NET POSITION
Year ended December 31,

	<u>2015</u>	<u>2014</u>
Operating revenues		
Net patient service revenue	\$ 15,565,850	\$ 15,371,071
Electronic health record incentive revenues (Note B)	160,879	634,075
Other	<u>504,569</u>	<u>428,289</u>
Total operating revenue	<u>16,231,298</u>	<u>16,433,435</u>
Operating expenses		
Salaries and wages	7,297,087	7,769,121
Employee benefits	2,045,366	2,032,779
Supplies and other	6,445,504	6,467,766
Depreciation and amortization	<u>1,039,417</u>	<u>1,054,300</u>
Total operating expenses	<u>16,827,374</u>	<u>17,323,966</u>
Operating loss	<u>(596,076)</u>	<u>(890,531)</u>
Nonoperating revenues (expenses), net		
Tax levy	599,271	578,920
Interest expense	(84,617)	(98,154)
Investment income	36,672	35,531
Noncapital grants and contributions	75,457	95,471
Loss on sale of capital assets	<u>(80)</u>	<u>(61,438)</u>
Total nonoperating revenues (expenses), net	<u>626,703</u>	<u>550,330</u>
Change in net position	30,627	(340,201)
Net position at beginning of year	<u>8,860,206</u>	<u>9,200,407</u>
Net position at end of year	<u>\$ 8,890,833</u>	<u>\$ 8,860,206</u>

The accompanying notes are an integral part of these statements.

CLAY COUNTY MEDICAL CENTER
STATEMENTS OF CASH FLOWS
Year ended December 31,

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 16,266,411	\$ 15,372,857
Payments to or on behalf of employees	(9,485,160)	(9,998,738)
Payments for suppliers and services	(6,454,275)	(6,426,023)
Other receipts and payments	<u>637,545</u>	<u>1,013,990</u>
Net cash provided (used) by operating activities	<u>964,521</u>	<u>(37,914)</u>
Cash flows from noncapital financing activities		
Tax levy	599,271	578,920
Noncapital grants and contributions	<u>75,457</u>	<u>95,471</u>
Net cash provided by noncapital financing activities	<u>674,728</u>	<u>674,391</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(493,894)	(733,841)
Proceeds from sale of capital assets	51,959	400
Principal payments on long-term debt	(322,224)	(312,224)
Capital lease obligations incurred	215,757	
Principal payments on capital lease obligations	(71,081)	
Interest paid	<u>(84,615)</u>	<u>(98,154)</u>
Net cash used by capital and related financing activities	<u>(704,098)</u>	<u>(1,143,819)</u>
Cash flows from investing activities		
Change in assets whose use is limited	(289,385)	680,503
Change in other investments	191,994	(96,764)
Investment income received	<u>36,672</u>	<u>39,088</u>
Net cash provided (used) by investing activities	<u>(60,719)</u>	<u>622,827</u>
Net increase in cash and cash equivalents	874,432	115,485
Cash and cash equivalents at beginning of year	<u>1,617,349</u>	<u>1,501,864</u>
Cash and cash equivalents at end of year	<u>\$ 2,491,781</u>	<u>\$ 1,617,349</u>

The accompanying notes are an integral part of these statements.

CLAY COUNTY MEDICAL CENTER
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (596,076)	\$ (890,531)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	1,039,417	1,054,300
Provision for bad debts	781,101	1,052,444
Changes in		
Accounts receivable	(153,077)	(1,985,791)
Other receivables	(22,378)	(48,374)
Estimated settlements with third-party payors	72,537	935,133
Inventories and prepaid expenses	(35,886)	21,249
Accounts payable and accrued expenses	<u>(121,117)</u>	<u>(176,344)</u>
Net cash provided (used) by operating activities	<u>\$ 964,521</u>	<u>\$ (37,914)</u>

The accompanying notes are an integral part of these statements.

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Financial reporting entity

Clay County Medical Center (Medical Center) is located in Clay Center, Kansas, and operates a 25-bed hospital. The Medical Center is owned by Clay County, Kansas (County), and governed by an elected five-member Board of Trustees. The Medical Center is a component unit of the County.

2. Blended component unit

Liberty Square, Inc. (LSI), is a not-for-profit corporation that was established for the basic purpose of leasing a nursing home and extended care facility to another party. LSI is governed by a Board of Trustees who hold their positions as a result of being elected members of the Medical Center's Board. For financial reporting purposes, LSI is reported as if it were a part of the Medical Center. The net assets of LSI, if any, are to be distributed to the Medical Center upon dissolution.

3. Basis of accounting

The Medical Center uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

5. Patient accounts receivable

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Medical Center provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

6. Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

7. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets is provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

8. Other investments

The Medical Center's investments in Mobile Clinical Services, Inc., Clay County Assisted Living, LLC, and Community Holdings LLC are stated at cost plus equity in undistributed net earnings (loss) since the date of acquisition.

9. Net position

The net position of the Medical Center is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is the remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

10. Operating revenues and expenses

The statement of revenue, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Medical Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

11. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, the provision for bad debts and contractual adjustments, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

12. Grants and contributions

From time to time, the Medical Center receives grants and contributions from individuals and other organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for specific operating purposes are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

13. Charity care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

14. Income taxes

The Medical Center is exempt from federal income taxes pursuant to Sections 115 and 501(c)(3) of the Internal Revenue Code.

15. Cash equivalents

The Medical Center considers all cash and invested cash, excluding assets whose use is limited, to be cash equivalents.

NOTE B - REIMBURSEMENT PROGRAMS

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated settlements due to/from third-party payors consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient and outpatient services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Medical Center under the critical access provisions are primarily based on various cost reimbursement methodologies. Physician and hospice services rendered to Medicare beneficiaries are paid based on a prospectively determined fee schedule. The Medical Center is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare administrative contractor. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2013.

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE B - REIMBURSEMENT PROGRAMS - Continued

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are also paid at prospective rates determined on either a per diem or fee-for-service basis.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

A summary of gross and net patient service revenue follows:

	<u>2015</u>	<u>2014</u>
Gross patient service revenue	\$ 26,543,132	\$ 24,595,320
Adjustments to patient revenue		
Third-party contractual adjustments, discounts, and allowances	(9,959,624)	(7,913,664)
Provision for bad debts	(781,101)	(1,052,444)
Charity care	<u>(236,557)</u>	<u>(258,141)</u>
Net patient service revenue	<u>\$ 15,565,850</u>	<u>\$ 15,371,071</u>

The Medical Center maintains records to identify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2015 and 2014, was \$236,557 and \$258,141, respectively. The Medical Center estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Medical Center's cost reports, was \$137,574 and \$167,425 for 2015 and 2014, respectively.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Medical Center recognizes revenue for EHR incentives when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the objectives in order to demonstrate

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE B - REIMBURSEMENT PROGRAMS - Continued

meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Medical Center recognized \$160,879 and \$634,075 of revenue related to EHR incentives in 2015 and 2014, respectively.

The Medical Center incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiatives. The amounts and timing of these expenditures do not directly correlate with the timing of the Medical Center's recognition of EHR incentives as revenue.

NOTE C - ASSETS WHOSE USE IS LIMITED BY BOARD OF TRUSTEES

Assets whose use is limited by the Board of Trustees consist of invested cash to be used for replacement of capital assets or for the purchase of additional capital assets and for deductible amounts under the Medical Center's health plan. The assets may be used for other purposes by action of the Board of Trustees.

NOTE D - ASSETS WHOSE USE IS LIMITED BY AGREEMENT

Assets whose use is limited by agreement are related to the Series 2006-A General Obligation Hospital Revenue Bonds (see Note H). The assets consist of invested cash in the following accounts:

	<u>2015</u>	<u>2014</u>
Debt Service Account	\$ 335,304	\$ 79,713
Series 2006-A Reserve Account	<u>250,000</u>	<u>250,000</u>
	585,304	329,713
Less amounts required for current liabilities	<u>272,779</u>	<u>79,713</u>
	<u>\$ 312,525</u>	<u>\$ 250,000</u>

The Series 2006-A Reserve Account was fully funded with an initial deposit of \$250,000. The 2006-A Reserve Account can only be used to prevent a default in the payment of interest on or principal of the bonds. If expenditures are made out of the Series 2006-A Reserve Account, the account must be fully funded within a period not to exceed twelve months.

The Debt Service Account is to be used to pay interest and principal payments on the bonds. Funds in the Debt Service Account that are required for obligations classified as current liabilities are reported in current assets.

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE E - LEASES

The Medical Center leases certain capital assets under long-term lease arrangements.

Property, equipment and accumulated depreciation and amortization include the following amounts for the leases that have been capitalized:

	<u>2015</u>
Movable equipment	\$ 212,900
Less accumulated depreciation	<u>16,576</u>
	<u>\$ 196,324</u>

The following is a yearly schedule of future minimum lease payments at December 31, 2015, for various capital lease obligations with interest rates of 1.75 percent originally issued in the amount of \$215,757.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 108,189	\$ 1,668	\$ 109,857
2017	<u>36,487</u>	<u>133</u>	<u>36,620</u>
	<u>\$ 144,676</u>	<u>\$ 1,801</u>	146,477
Less amounts representing interest			<u>1,801</u>
Present value of net minimum lease payments			144,676
Less current portion			<u>108,189</u>
			<u>\$ 36,487</u>

The following is a summary of changes in capital lease obligations:

Principal outstanding at December 31, 2014	\$ -
2015 Capital lease obligations incurred	215,757
2015 Payments on capital lease obligations	<u>(71,081)</u>
Principal outstanding at December 31, 2015	<u>\$ 144,676</u>

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE F - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	2015			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 117,377	\$ -	\$ -	\$ 117,377
Land improvements	338,686	765		339,451
Buildings and fixed equipment	13,993,455	69,872	311,887	13,751,440
Major movable equipment	7,526,546	390,587	1,693,367	6,223,766
Totals at historical cost	<u>21,976,064</u>	<u>461,224</u>	<u>2,005,254</u>	<u>20,432,034</u>
Less accumulated depreciation and amortization				
Land improvements	239,966	14,310		254,276
Buildings and fixed equipment	10,101,923	448,695	273,974	10,276,644
Major movable equipment	6,042,467	576,411	1,679,238	4,939,640
	<u>16,384,356</u>	<u>1,039,416</u>	<u>1,953,212</u>	<u>15,470,560</u>
Projects in progress	5,591,708	(578,192) 43,500	52,042	4,961,474 43,500
Capital assets, net	<u>\$ 5,591,708</u>	<u>\$ (534,692)</u>	<u>\$ 52,042</u>	<u>\$ 5,004,974</u>
	2014			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 117,377	\$ -	\$ -	\$ 117,377
Land improvements	338,686			338,686
Buildings and fixed equipment	13,919,466	73,989		13,993,455
Major movable equipment	6,729,911	1,082,009	285,374	7,526,546
Totals at historical cost	<u>21,105,440</u>	<u>1,155,998</u>	<u>285,374</u>	<u>21,976,064</u>
Less accumulated depreciation and amortization				
Land improvements	225,633	14,333		239,966
Buildings and fixed equipment	9,583,060	518,863		10,101,923
Major movable equipment	5,744,899	521,104	223,536	6,042,467
	<u>15,553,592</u>	<u>1,054,300</u>	<u>223,536</u>	<u>16,384,356</u>
Projects in progress	5,551,848 442,925	101,698 (442,603)	61,838 322	5,591,708
Capital assets, net	<u>\$ 5,994,773</u>	<u>\$ (340,905)</u>	<u>\$ 62,160</u>	<u>\$ 5,591,708</u>

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE G - OTHER INVESTMENTS

Other investments consist of 5,000 shares (20 percent) of the common stock of Mobile Clinical Services, Inc. (MCS), two units (22.2 percent) of the ownership units of Clay County Assisted Living, LLC (CCAL), and a 16.8 percent equity interest in Community Holdings LLC (CH) (see Note K). The Medical Center's equity in undistributed net earnings of MCS since acquisition is \$137,567. The Medical Center's equity in the undistributed net loss of CCAL and CH since acquisition is \$123,913 and \$2,539, respectively.

Nuclear medicine and ultrasound services are provided to the Medical Center through arrangements with MCS. Total fees charged to operating expense for these services were approximately \$217,000 in 2015 and \$209,000 in 2014. Amounts payable to MCS for these services were insignificant at December 31, 2015 and 2014. The Medical Center paid CH approximately \$566,000 and \$567,000 in 2015 and 2014, respectively, for premiums under its partially self-insured health insurance plan.

NOTE H - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2015</u>	<u>2014</u>
4.10% to 5.25% Hospital Revenue Bonds, Series 2006-A, issued in March 2006, in the original amount of \$2,500,000	\$ 1,395,000	\$ 1,635,000
0% Note payable due to Blue Stem Electric Coop, issued in April 2008, in the original amount of \$740,000 with an administrative fee of one percent of the unpaid balance due annually to Blue Stem Electric Coop and, in addition, an administrative fee of one percent of the unpaid principal balance due annually to a local bank, and monthly principal payments of \$6,852	<u>184,988</u>	<u>267,212</u>
Total long-term debt	1,579,988	1,902,212
Less current maturities of long-term debt	<u>(337,224)</u>	<u>(322,224)</u>
	<u>\$ 1,242,764</u>	<u>\$ 1,579,988</u>

The County issued \$2,500,000 Series 2006-A Hospital Revenue bonds in March 2006. The proceeds from this issue were used to construct a building addition and related improvements. The revenue bonds are due in annual installments of varying amounts with final maturity on October 1, 2020. Interest is payable on April 1 and October 1 of each year. The revenue bonds are payable solely from a pledge of the revenues derived from the operation of the Medical Center.

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE H - LONG-TERM DEBT - Continued

The provisions of the hospital revenue bond resolutions (Series 2006-A) contain covenants which, among other things, require the segregation of funds for payment of principal and interest on the bonds (see Note D). The Series 2006-A bonds require a debt service coverage ratio of 1.20 on all parity bonds and obligations and 1.00 on any junior lien obligations and subordinate lien bonds. The computation of these covenants as defined in the bond resolution and interpreted by Medical Center management is as follows:

	<u>Parity calculation</u>	<u>Junior lien obligation</u>
Total operating revenues	\$ 16,231,298	\$ 16,231,298
Total nonoperating revenues (expenses), net	626,703	626,703
Adjustments for		
Loss on sale of capital assets	80	80
Interest expense	<u>84,617</u>	<u>84,617</u>
Revenues	<u>16,942,698</u>	<u>16,942,698</u>
Total operating expenses	16,827,374	16,827,374
Adjustment for		
Depreciation and amortization	<u>(1,039,417)</u>	<u>(1,039,417)</u>
Expenses	<u>15,787,957</u>	<u>15,787,957</u>
Net revenue	<u>\$ 1,154,741</u>	<u>\$ 1,154,741</u>

Scheduled annual debt service requirements on long-term debt are as follows:

	<u>Parity calculation</u>	<u>Junior lien obligation</u>
Hospital revenue bond principal payments	\$ 240,000	\$ -
Hospital revenue bond interest payments	82,638	
Capital lease obligation principal payments		71,081
Capital lease obligation interest payments		2,158
Blue Stem Electric note principal payments		82,224
Blue Stem Electric note interest payments		<u>5,344</u>
	<u>\$ 322,638</u>	<u>\$ 160,807</u>
Computed ratio	<u>3.58</u>	<u>7.18</u>
Minimum required ratio	<u>1.20</u>	<u>1.00</u>

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE H - LONG-TERM DEBT - Continued

Scheduled annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 337,224	\$ 74,406	\$ 411,630
2017	347,224	60,267	407,491
2018	300,540	45,373	345,913
2019	290,000	31,093	321,093
2020	305,000	16,013	321,013
	<u>\$ 1,579,988</u>	<u>\$ 227,152</u>	<u>\$ 1,807,140</u>

The following is a summary of changes in long-term debt:

Principal outstanding at January 1, 2014	\$ 2,214,436
2014 payment of debt	<u>(312,224)</u>
Principal outstanding at December 31, 2014	1,902,212
2015 payment of debt	<u>(322,224)</u>
Principal outstanding at December 31, 2015	<u>\$ 1,579,988</u>

NOTE I - RISK MANAGEMENT

The Medical Center is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against the Medical Center for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. All coverage is on a claims-made basis. The above policies are currently in effect through December 31, 2015. The Medical Center intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center purchases commercial insurance for these risks.

NOTE J - PENSION PLAN

Substantially all employees of the Medical Center participate in the Clay County Medical Center Employees' Pension Plan (Plan), which is a defined contribution pension plan. The payroll for employees covered by the Plan for 2015 and 2014, was approximately \$7,270,000 and \$7,367,000, respectively. The total payroll for 2015 and 2014 was approximately \$7,297,000 and \$7,769,000, respectively. Substantially all employees of the Medical Center are eligible

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE J - PENSION PLAN - Continued

to participate in the Plan after one year of employment. Covered employees are required under the terms of the Plan to contribute 3.5 percent of the first \$15,000 of covered compensation plus 7 percent of the covered compensation exceeding \$15,000. The Medical Center is required under the terms of the Plan to contribute 3.5 percent of the first \$15,000 of covered compensation plus 7 percent of the covered compensation exceeding \$15,000. Contributions to the Plan made by an employee vest immediately and contributions to the Plan made by the Medical Center vest based upon the Plan's vesting schedule and the employee's years of service with the Medical Center.

The contribution requirement to the Plan for 2015 was approximately \$794,000 which consisted of equal amounts from the Medical Center and from the employees. The employee and Medical Center contributions represented 10.92 percent of covered payroll. The contribution requirement for 2014 was approximately \$835,000 which consisted of equal amounts from the Medical Center and from the employees and represented 11.32 percent of covered payroll. Contributions to the Plan are invested in annuity contracts with an insurance company.

NOTE K - EMPLOYEE HEALTH INSURANCE

The Medical Center is partially self-insured for health insurance claims of its employees. The Medical Center has a reinsurance agreement that provides individual stop-loss coverage for incurred claims expense in excess of \$30,000 for individual subscribers. In addition, the reinsurance company contracts with another insurance company to provide catastrophic stop-loss insurance coverage for incurred claims expense in excess of \$250,000 for individual subscribers. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Medical Center has retained an insurance company as its agent to process and settle claims.

The Medical Center has an equity interest in the company that provides individual stop-loss coverage for incurred claims expense in excess of \$30,000 for individual subscribers. The detail of this investment is included in Note G.

The following is a summary of the activity under this arrangement:

	<u>2015</u>	<u>2014</u>
Estimated employee health insurance claims payable at beginning of period	\$ 100,000	\$ 160,067
Provision for employer's share of incurred claims expenses for the period, net of any reinsurance proceeds	878,918	957,551
Employee contributions	407,891	293,807
Payments made for claims, expenses, and reinsurance premiums	<u>(1,301,197)</u>	<u>(1,311,425)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 85,612</u>	<u>\$ 100,000</u>

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE L - RENTAL OF PROPERTY

The Medical Center receives rent under operating lease agreements for physician private office space, a nursing home and extended care facility, and other space. Rental revenue under these agreements was approximately \$122,000 and \$102,000 for 2015 and 2014, respectively.

NOTE M - OTHER RELATED PARTIES

Clay County Medical Center Foundation (Foundation) was established in April 1987. The Foundation's Articles of Incorporation provide that its funds are for the benefit of the Medical Center. The Medical Center received \$18,076 and \$30,000 in noncapital grants and contributions from the Foundation in 2015 and 2014, respectively.

The Medical Center has a contract with a local physician practice to provide emergency room coverage services. One of the members of this physician practice is an immediate family member of one of the Medical Center's Board of Trustees. The total fees paid to the physician practice under the contract were \$453,963 and \$460,939 for 2015 and 2014, respectively.

NOTE N - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Medical Center, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

The carrying amount of the Medical Center's deposits with financial institutions was \$3,474,763 and the bank balance was \$3,816,949 at December 31, 2015. The bank balance is categorized as follows at December 31, 2015:

Amount insured by the F.D.I.C., or collateralized with securities held by the Medical Center or by its agent in the Medical Center's name	\$ 907,197
Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Medical Center's name)	<u>2,909,752</u>
	<u>\$ 3,816,949</u>

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE O - SUBSEQUENT EVENTS

The Medical Center has evaluated subsequent events through the date of the independent certified public accountants' report, which is the date the financial statements were available to be issued.

In May of 2016, the Medical Center entered into an asset purchase agreement with a local physician practice. The purchase price of the assets and records of the physician practice will be approximately \$200,000 with a closing date of June 30, 2016. The Medical Center will employ the existing employees of the physician practice as of July 1, 2016, with the intention of operating the practice as a hospital-based rural health clinic.

In March of 2016, the Medical Center signed an operating line of credit in the amount of \$1,000,000 with an interest rate of 3 percent with a local financial institution. This line of credit is to be used, if necessary, to assist in the Medical Center's cash flow related to the physician clinic purchase mentioned in the preceding paragraph. As of the report date, no amounts have been drawn on this line of credit.

SUPPLEMENTARY INFORMATION

CLAY COUNTY MEDICAL CENTER
NET PATIENT SERVICE REVENUE
Year ended December 31,

	2015			2014
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Routine nursing care	\$ 3,151,195	\$ (34,699)	\$ 3,116,496	\$ 3,176,314
Nursery	80,325		80,325	75,451
Intensive care	94,848		94,848	123,919
Surgery, recovery, and treatment room	86,691	1,021,708	1,108,399	1,009,890
Labor and delivery	63,880	7,153	71,033	81,732
Medical and surgical supplies	397,702	391,997	789,699	740,752
Emergency room and observation	47,359	2,770,042	2,817,401	2,437,784
Laboratory	661,370	2,156,568	2,817,938	2,828,389
Blood administration	48,482	50,499	98,981	113,456
Radiology	175,132	2,098,443	2,273,575	1,784,496
Nuclear medicine	23,614	515,628	539,242	435,017
Sonograms	13,843	397,343	411,186	434,328
Computerized tomography	278,634	2,669,791	2,948,425	2,514,006
Mammography	307	235,156	235,463	193,441
Vascular studies, telemetry, and cardiology	95,322	1,271,518	1,366,840	1,165,068
Clinics	2,308	241,593	243,901	291,830
Pharmacy	655,176	1,772,532	2,427,708	2,348,699
Intravenous therapy	131,676	110,412	242,088	227,686
Anesthesiology	96,798	907,750	1,004,548	827,499
Respiratory therapy	573,660	171,643	745,303	711,633
Physical therapy	179,326	882,876	1,062,202	774,707
Occupational therapy	157,499	181,992	339,491	259,007
Speech therapy	110,940	123,786	234,726	132,102
Hospice	6,240	1,467,074	1,473,314	1,908,114
Gross patient service revenue	<u>\$ 7,132,327</u>	<u>\$19,410,805</u>	<u>26,543,132</u>	<u>24,595,320</u>
Adjustments to gross patient service revenue				
Contractual adjustments, discounts, and allowances			(9,959,624)	(7,913,664)
Provision for bad debts			(781,101)	(1,052,444)
Charity care			(236,557)	(258,141)
Net patient service revenue			<u>\$15,565,850</u>	<u>\$15,371,071</u>

CLAY COUNTY MEDICAL CENTER

OPERATING EXPENSES

Year ended December 31,

	2015			2014
	<u>Salaries and wages</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
Routine nursing care	\$ 1,312,046	\$ 70,658	\$ 1,382,704	\$ 1,612,355
Nursing administration	138,610	12,937	151,547	249,976
Nursery	29,097	6,034	35,131	38,909
Intensive care	52,016	5,891	57,907	79,065
Surgery, recovery, and treatment room	375,101	163,910	539,011	560,841
Surgeon	19,252	182	19,434	10,917
Labor and delivery	82,734	71,910	154,644	140,407
Medical and surgical supplies		148,225	148,225	134,786
Emergency room	288,690	946,278	1,234,968	1,221,198
Laboratory	307,928	432,069	739,997	814,019
Blood administration				5,874
Radiology	268,683	162,020	430,703	475,758
Nuclear medicine		138,462	138,462	119,597
Sonogram	56,990	13,110	70,100	53,067
Computerized tomography	58,156	74,364	132,520	157,533
Mammography	45,000	59,645	104,645	51,170
Vascular studies and cardiology	110,532	6,840	117,372	126,607
Clinics	167,838	1,164	169,002	127,109
Pharmacy	107,764	1,243,567	1,351,331	1,277,794
Intravenous therapy	7,031	9,457	16,488	12,801
Anesthesiology		373,324	373,324	387,638
Respiratory therapy	194,037	49,331	243,368	288,105
Physical, occupational, and speech therapy	554,576	151,821	706,397	646,435
Wellness	123,587	23,352	146,939	155,556
Hospice	586,157	345,374	931,531	1,154,920
Dietary	223,340	164,900	388,240	398,587
Operation of plant	143,970	716,151	860,121	885,620
Housekeeping	168,823	43,339	212,162	214,027
Laundry	62,612	17,446	80,058	73,992
Medical records	295,106	108,677	403,783	446,199
Fiscal services	772,654	258,146	1,030,800	1,027,695
Purchasing	36,424	12,801	49,225	35,237
Administrative services	708,333	614,119	1,322,452	1,253,093
Employee benefits		2,045,366	2,045,366	2,032,779
Depreciation and amortization		1,039,417	1,039,417	1,054,300
	<u>\$ 7,297,087</u>	<u>\$ 9,530,287</u>	<u>\$16,827,374</u>	<u>\$17,323,966</u>

CLAY COUNTY MEDICAL CENTER
SUMMARY OF INSURANCE COVERAGE
December 31, 2015

	<u>Policy number</u>	<u>Policy expiration date</u>	<u>Amount</u>
Fire, extended coverage, and vandalism Medical Center buildings and contents	0B5-75-57	12-31-15	\$27,424,303
Equipment breakdown	0B5-75-57	12-31-15	27,424,303
Fidelity and forgery bonds	0F5-75-57	1-01-16	10,000
Workmen's compensation Employer liability	Certificate #8	1-01-16	Statutory 500,000/500,000
Medical Center liability Professional liability Medical Center premises and operations Professional employees other than physicians and residents Employee benefits liability Cyber liability	HPL0021603	12-31-15	200,000/600,000 1,000,000/3,000,000 1,000,000/3,000,000 250,000/250,000 100,000/100,000
Professional liability - Kansas Health Care Stabilization Fund	HPL0021603	12-31-15	300,000/900,000
Trustees and officers' liability	29949C120ASP	1-27-16	1,000,000/1,000,000
Auto Comprehensive and collision Liability	0E5-75-57	1-01-16	Full coverage 1,000,000
Marine Commercial inland coverage	0C5-75-57	12-31-15	95,000
Resident Fund Surety Bond	71295333	7-09-16	4,000
Public Official Bond	0F5-75-57	1-09-16	50,000
Employment Practices Liability	29949C120ASP	1-27-16	1,000,000/1,000,000

CLAY COUNTY MEDICAL CENTER
PATIENT ACCOUNTS RECEIVABLE
December 31,

	<u>2015</u>	<u>2014</u>
Age of patients' accounts		
0 - 30 days	\$ 2,624,819	\$ 2,005,766
31 - 60 days	1,220,422	1,425,774
61 - 90 days	400,085	527,205
Over 90 days	<u>2,363,323</u>	<u>2,487,201</u>
	6,608,649	6,445,946
Less:		
Allowance for doubtful accounts	(2,119,039)	(1,713,320)
Allowance for contractual adjustments	<u>(1,726,204)</u>	<u>(1,341,196)</u>
	<u>\$ 2,763,406</u>	<u>\$ 3,391,430</u>

CLAY COUNTY MEDICAL CENTER
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY
December 31, 2015

	Clay County National Bank Clay Center, Kansas	Farmer's & Merchants State Bank Clay Center, Kansas
Bank balances		
December 31, 2015	\$ 170,960	\$ 2,849,063
Less F.D.I.C. coverage	<u>170,960</u>	<u>250,000</u>
Balance in excess of F.D.I.C. coverage	<u>\$ -</u>	<u>\$ 2,599,063</u>
Market value of securities pledged	<u>\$ 100,344</u>	<u>\$ 2,901,520</u>

CLAY COUNTY MEDICAL CENTER
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY - CONTINUED
December 31, 2015

	Union State Bank Clay Center, Kansas	United Bank & Trust Clay Center, Kansas
	<u> </u>	<u> </u>
Bank balances		
December 31, 2015	\$ 560,689	\$ 236,237
Less F.D.I.C. coverage	<u>250,000</u>	<u>236,237</u>
Balance in excess of F.D.I.C. coverage	<u>\$ 310,689</u>	<u>\$ -</u>
Market value of securities pledged	<u>\$ 1,505,360</u>	<u>\$ 205,949</u>

CLAY COUNTY MEDICAL CENTER
 STATISTICAL DATA
 (Unaudited)
 Year ended December 31,

	<u>2015</u>	<u>2014</u>
Patient days		
Routine nursing care		
Acute care	1,473	1,615
Swing-bed care		
Skilled	2,179	2,075
Intermediate	-	16
Intensive care	38	53
Nursery	105	113
Discharges (excluding newborn)	702	741
Admissions (excluding newborn)	705	740
Number of licensed beds (excluding nursery)	25	25
Total patient days (excluding nursery)	3,690	3,759
Percent of occupancy (excluding nursery)	40.4%	41.2%
Medicare patient days		
Routine nursing care		
Acute care	977	1,117
Swing-bed care	1,999	1,910
Intensive care	33	38
Total	3,009	3,065
Medicaid patient days		
Routine nursing care		
Acute care	114	84
Swing-bed care	15	64
Intensive care	3	4
Nursery	41	27
Total	173	179